

Message Text

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ACTION EUR-25

INFO OCT-01 EA-11 ISO-00 SP-03 AID-20 EB-11 NSC-07 RSC-01

CIEP-02 TRSE-00 SS-20 STR-08 OMB-01 CEA-02 L-03 H-03

PA-04 PRS-01 USIA-15 CIAE-00 FRB-02 INR-10 NSAE-00

XMB-07 OPIC-12 LAB-06 SIL-01 DRC-01 /177 W

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R 051841Z JUL 74

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 1845

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DUBLIN

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY STOCKHOLM

AMEMBASSY THE HAGUE

AMEMBASSY TOKYO

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDOC WASHDC

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DEPARTMENT PASS TREASURY AND FRB

E.O. 11652:N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS - WEEK ENDING JULY 5

BEGIN SUMMARY: STERLING'S HIGH FOR THE WEEK, AGAINST THE DOLLAR, WAS \$2.3990 ON TUESDAY (JULY 2) AFTER WHICH IT FELL BACK SLIGHTLY TO CLOSE AT \$2.3875 ON THURSDAY (JULY 4). THE TRADE-WEIGHTED DEPRECIATION HELD FAIRLY STEADY
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AROUND 16.8 PERCENT, WIDENING A BIT ON THURSDAY (JULY 4)

TO 17.1 PERCENT, COMPARED TO 16.99 PERCENT A WEEK AGO.
GOLD CONTINUED TO FALL CLOSING AT \$131 ON THURSDAY (JULY
4) DOWN \$13.50 FROM LAST WEEK'S CLOSE; RECORD HIGH EURO-
DOLLAR RATES ARE SEEN AS ONE CAUSE OF THE FALL IN THE GOLD
PRICE. MOST COMMENTATORS EXPECT THE CHANCELLOR TO
ANNOUNCE REFLATIONARY MEASURES IN THE NEXT FEW WEEKS. UK
OFFICIAL RESERVES FELL BY \$209 MILLION IN JUNE TO \$6,711
MILLION AT THE END OF THE MONTH. THE VOLUME OF RETAIL
SALES FELL 2.3 PERCENT IN MAY. NEW INSTALLMENT CREDIT
FIGURES CONTINUED TO SHOW SOME RECOVERY IN MAY AFTER THE
SHARP DROP AT THE BEGINNING OF THE YEAR. THE COMMITTEE ON
INVISIBLE EXPORTS SEES FURTHER GROWTH IN BRITAIN'S INVIS-
IBLE EXPORT EARNINGS THIS YEAR DESPITE UNCERTAINTIES
ARISING FROM INSTABILITY OF EXCHANGE RATES AND PROBLEMS OF
DOMESTIC INFLATION. THE LATEST FT SURVEY OF BUSINESS
OPINION ALSO IS MORE OPTIMISTIC. END SUMMARY

1. THE POUND TRADED WITHIN FAIRLY SMALL MARGINS THIS WEEK
CLOSING ON THURSDAY AT \$2.3875, DOWN 20 POINTS FROM LAST
THURSDAY'S CLOSE. THE TRADE WEIGHTED DEVALUATION RANGED
BETWEEN 16.75 PERCENT (JULY 2) AND 17.1 PERCENT (JULY 4).
GOLD MOVED STEADILY DOWNWARD CLOSING AT \$131 ON THURSDAY
(JULY 4), THE LOWEST LEVEL SINCE EARLY FEBRUARY. RECORD
HIGH EURO-DOLLAR RATES (SEE PARA 10) MAKE GOLD HOLDING
EXPENSIVE AND MANY OF THE SPECULATORS ARE GETTING OUT OF
THE MARKET. SINCE THE GOLD MARKET IS A THIN ONE, A SMALL
AMOUNT OF TRADING CAN MOVE THE PRICE SUBSTANTIALLY.

2. THE CHANCELLOR IS EXPECTED TO ANNOUNCE REFLATIONARY
MEASURES TOWARDS THE END OF THE MONTH. HE HAS SEVERAL
OPTIONS OPEN TO HIM WHICH DO NOT REQUIRE LEGISLATION IN-
CLUDING: REDUCTION OF VAT RATE; CHANGES IN HIRE PURCHASE
TERMS. IT IS EXPECT-
ED THAT NO FINAL DECISION WILL BE MADE UNTIL AFTER THE
JUNE TRADE FIGURES ARE PUBLISHED NEXT THURSDAY (JULY 18).

3. UK RESERVES FELL BY \$209 MILLION IN JUNE TO \$6,771
MILLION (87 MILLION POUNDS AND 2,806 MILLION RESPECTIVELY,
CONVERTED AT THE DOLLAR-STERLING EXCHANGE RATE OF \$2.3915
RULING AT THE END OF THE MONTH). FOREIGN CURRENCY BORROW-
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INGS DURING THE MONTH TOTALLED \$165 MILLION, BRINGING THE
AMOUNT RAISED SINCE MARCH 1973 TO \$4,240 MILLION. UK PAID
OUT \$59 MILLION IN JUNE IN LONG-TERM DEBT SERVICE TO THE
US EXPORT-IMPORT BANK AND TO THE ECONOMIC COOPERATION
ADMINISTRATION MUTUAL SECURITY AGENCY. ALTHOUGH THE DROP
IN RESERVES IN JUNE WAS THE LARGEST FOR FOUR MONTHS, THE
DECLINE REMAINS CONSIDERABLY LESS THAN MIGHT BE EXPECTED
IN THE FACE OF THE UK'S LARGE CURRENT ACCOUNT DEFICIT.

THE IMPLICATION IS THAT BRITAIN IS STILL BENEFITTING CONSIDERABLY FROM LARGE CAPITAL INFLOWS DUE TO LARGE PURCHASES OF STERLING BY OIL COMPANIES.

4. THE INDEX OF THE VOLUME OF RETAIL SALES IN MAY IS 105.4 (1971100, S.A.) COMPARED TO 107.9 IN APRIL, A DROP OF 2.3 PERCENT. OVER THE FIRST FIVE MONTHS OF THE YEAR, THE AVERAGE VOLUME OF RETAIL SALES WAS 2-1/4 PERCENT DOWN ON THE SECOND HALF OF 1973, WITH THE DURABLE GOODS SHOPS SUFFERING MOST WITH A 6 PERCENT DROP.

5. NEW CREDIT ADVANCED BY RETAILERS AND FINANCE HOUSES TOTALLED 202 MILLION POUNDS (S.A.) IN MAY, CONTINUING THE

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SLIGHT UPWARD TREND OF RECENT MONTHS. WHEN MARCH-MAY IS COMPARED WITH DECEMBER-FEBRUARY, THERE HAS BEEN A DROP OF 2 PERCENT IN NEW CREDIT ADVANCED. THESE FIGURES COMBINED WITH THE FALL IN THE VOLUME OF RETAIL SALES UNDERLINE THE DRAMATIC EFFECT OF THE VARIOUS DEFLATIONARY INFLUENCES OF THE PAST SIX MONTHS ON THE CONSUMER SPENDING ELEMENT OF NATIONAL INCOME.

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6. THE COMMITTEE ON INVISIBLE EXPORTS, IN ITS THIRD ANNUAL SURVEY, INDICATES FURTHER GROWTH THIS YEAR IN INVISIBLE EXPORTS WITH THE BANKING INDUSTRY REPLACING TOURISM AS THE MOST OPTIMISTIC SECTOR. IN GENERAL, THE VOLUME OF BUSINESS WAS EXPECTED TO BE AT LEAST MAINTAINED, WITH ANTICIPATED RISES IN EARNINGS RANGING UP TO 20 PERCENT. HOWEVER PRICE FACTORS WILL ACCOUNT FOR MUCH OF THE RISE.

7. THE FT MONTHLY SURVEY OF BUSINESS OPINION FINDS THAT THE SHORT-TERM OUTLOOK FOR THE BRITISH ECONOMY MAY NOT BE QUITE AS BAD AS IT HAS RECENTLY BEEN PAINTED. HOWEVER, THE PROSPECT FOR COMPANY PROFITS REMAINS DEPRESSED. EXPORT PROSPECTS ARE GOOD, ESPECIALLY FOR NON-ELECTRICAL ENGINEERING. WHILE COMPANIES REMAIN EXTREMELY CONCERNED ABOUT THE INFLATIONARY OUTLOOK, AND ALTHOUGH SOME EASING IS EXPECTED IN THE PRESSURE OF RAW MATERIAL PRICES, WAGE COSTS WILL BE A SERIOUS PROBLEM.

8. FORWARD DISCOUNTS ON STERLING CONTINUED TO NARROW AND AT ONE MONTH STERLING WAS AT A VERY SLIGHT PREMIUM AT THE END OF THE WEEK.

6/27	7/4	CHANGE
1 MONTH	0.20	0 DOWN 0.20
3 MONTHS	1.80	1.12-1/2 DOWN 0.67-1/2
6 MONTHS	4.90	4.10 DOWN 0.80

(ALL FIGURES IN CENTS)

9. LOCAL AUTHORITY DEPOSIT RATES DROPPED BACK THIS WEEK.

6/27	7/4	CHANGE
1 MONTH	12-1/2	11-3/4 DOWN 3/4
3 MONTHS	13-7/16	13 DOWN 7/16
6 MONTHS	13-7/8	13-1/2 DOWN 3/8

10. EURO-DOLLAR RATES REACHED RECORD HIGHS.

	6/27	7/4	CHANGE
1 MONTH	13	14-3/16	UP 1-3/16
3 MONTHS	13	14-1/16	UP 1-1/16
6 MONTHS	13	13-7/8	UP 7/8

11. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-3/4

PERCENT ON FRIDAY, JULY 5, 1974.

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